



REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY OF THE ARMY
ACQUISITION LOGISTICS AND TECHNOLOGY
103 ARMY PENTAGON
WASHINGTON DC 20310-0103

8 JAN 2001



Mr. Michael Bayer
Chairman, Army Science Board
2511 Jefferson Davis Highway, Suite 11500
Arlington, Virginia 22202

Dear Mr. Bayer:

I request that the Army Science Board (ASB) conduct a study on "Venture Capital" as a means of exploring technological opportunities for modernizing the Objective Force given future budgetary constraints. The study should address, but is not limited to, the Terms of Reference (TOR) described below. Appointed ASB members to this study are to consider the TOR as guide lines and may expand the study to issues considered important to the study. Modifications to the TOR must be addressed with the Chairman of the ASB.

Background:

a. Army modernization will continue to be a challenge in the near and mid term due to very little upward movement in the Army's budget top-line. Industry's ability to quickly jump-start and leverage emerging technology provides a potential model for the Army to use for maintaining its modernization toward the Objective Force.

b. I envisage that this study will provide practical insights into potential opportunities for leveraging venture capital to maintain modernization during an era of flat or declining budgets as percentage of the Gross Domestic Product. The results of the study should highlight science and technology opportunities that will assist Army Leadership in prioritizing research, development and acquisition in order to yield dramatic improvements to the Objective Force. The study should also highlight potential pitfalls associated with venture capital for determining the viability of using such an approach for modernization.

TOR: The study should be guided by, but not limited to the following TOR.

(1) Examine methods to obtain complementary funding resources for long-term research and development strategic objectives.



(2) Develop options and approaches to provide these resources. This includes, but is not limited to: leveraging the Army's intellectual property through licensing and equity interests; establishing an Army venture capital fund, to participate with venture partners for rapid "spin-in" of promising new technologies; developing more robust partnerships and collaborations with industry and academia; piloting programs of focused tax incentives and low cost financing.

(3) Provide specific recommendations and associated next steps for each recommendation, including but not limited to legislative authority and regulatory modifications.

(4) Focus on using a small portion of Army funds to sponsor new technologies in start-up companies that offer high potential benefits to the Army as well as potential commercial benefits.

(5) Develop models with entrance and exit criteria for Army investment and divestiture of non-government research and development.

Study Sponsorship: Co-Sponsors for this study will be Assistant Secretary of the Army, Acquisition, Logistics and Technology; Deputy Chief of Staff for Programs; and Assistant Secretary of the Army, Financial Management and Comptroller.

Schedule: The study panel will initiate the study immediately and conclude its effort by April 30, 2001.

Sincerely,

A handwritten signature in black ink, reading "Paul J. Hoeper". The signature is written in a cursive, flowing style.

Paul J. Hoeper
Assistant Secretary of the Army
(Acquisition, Logistics and Technology)